



# Sequestration Analysis

*Prepared by the Government Relations Office  
University of Missouri System  
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## Overview

### *What is sequestration?*

Passed as part of the Budget Control Act of 2011, sequestration is a deficit reduction mechanism to levy automatic, across-the-board cuts to federal spending set to begin on January 2, 2013. These cuts will be coupled with statutory caps on discretionary spending set through FY2021.

### *Why could sequestration happen?*

The Budget Control Act of 2011 was an agreement between the U.S. House, Senate, and the President. In return for raising the federal debt ceiling by \$1.2 trillion, a Joint Select Committee on Deficit Reduction (Super Committee) was formed to present a plan to Congress to reduce the deficit by that same amount over between FY2012 and FY2021.

Because the Joint Select Committee on Deficit Reduction did not produce a plan in the fall of 2011, the cuts outlined in the sequester will begin to occur on January 2, 2013 unless Congress changes the current law.

### *How much will be cut?*

In 2013, sequestration would enact \$109.3 billion in across-the-board cuts.

- 8.4 percent for non-defense discretionary programs (\$54.7 billion reduction)
- 7.5 percent for defense programs (\$54.7 billion reduction)
- 8 percent for mandatory programs other than Medicare
- 2 percent for Medicare provider payments

For FY2014 and beyond, the cuts will be determined by Congress and the President through the annual appropriations process, and not be an automatic, across-the-board cut by the same percentage.

### *How would sequestration impact the University of Missouri System?*

Sequestration will reduce funding by more than **\$25 million** in FY2013 from key areas at the University of Missouri System, including federally supported research, student aid, and health care. For research, this means a direct reduction in the number of grants available, smaller awards sizes, or that only existing but not new awards would be funded. For student aid, it will result in less work-study funding. For our hospitals and physicians, it means lower Medicare reimbursement rates.

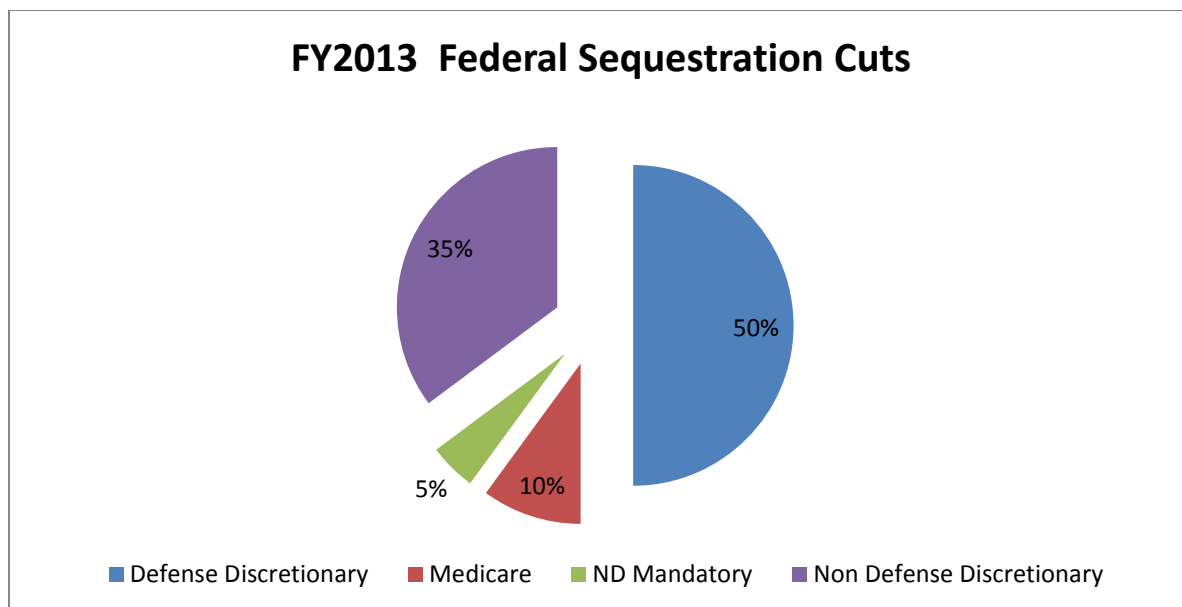
## Sequestration Specifics for FY2013

Sequestration will affect both mandatory (entitlement) and discretionary programs; however many of the large mandatory programs like Social Security are exempted. The reductions for 2013 are significantly different than in the subsequent years. For 2013, sequestration would enact \$109.4 billion in across-the-board cuts to federal programs. This will equate to an **8.4 percent cut for non-defense discretionary programs**, and a **7.5 percent cut to defense programs**, an 8 percent cut to mandatory programs other than Medicare, and 2 percent to Medicare provider payments.

- \$54.7 billion reduction to Non-Defense cuts
- \$11 billion from Medicare Provider Payments (2 percent)
- \$5.2 billion from other mandatory programs, which could include commodities, student loans, vocational rehabilitation, mineral leasing payments, Social Services block Grant and others. (Social Security, Medicaid, CHIP, SSI, food stamps are exempt).
- \$38.5 billion in non-defense discretionary, through across-the board, proportional reductions. (Pell Grants and veterans' programs exempted)

\$54.7 billion reduction to Defense through across-the-board, proportional reductions for defense appropriations accounts. (Military personnel costs may be exempt, but equal reductions would need to be found elsewhere. These exemptions mean that all other DoD programs will be cut approximately 9.5% across-the-board).

These specific instructions to defense and non-defense reductions result in a “firewall” between those two areas of federal spending.



## Sequestration in FY2014 and Beyond

The process is different for 2014-2021. The defense cuts will remain \$54.7 billion per year, but will be applied to the statutory cap. Therefore, the specific reductions will be determined by Congress and the President through the annual appropriations process.

Like defense, the non-defense discretionary cuts will be determined through the annual appropriations process.

The reductions to the entitlement programs will be the same as FY13. Medicare providers will continue to be reduced by 2 percent annually. Because Medicare costs will rise over this time period, the other non-defense discretionary programs will absorb a declining share in the out years.

<b>Table 3: What Will Happen in 2014 through 2021? In billions of dollars</b>								
	2014	2015	2016	2017	2018	2019	2020	2021
<b>Defense caps before reduction</b>	<b>556</b>	<b>566</b>	<b>577</b>	<b>590</b>	<b>603</b>	<b>616</b>	<b>630</b>	<b>644</b>
Required reduction, dollars	54.7	54.7	54.7	54.7	54.7	54.7	54.7	54.7
Required reduction, percent	9.8%	9.7%	9.5%	9.3%	9.1%	8.9%	8.7%	8.5%
Resulting level of caps	501	511	522	535	548	561	575	589
<b>NDD caps before reduction</b>	<b>510</b>	<b>520</b>	<b>530</b>	<b>541</b>	<b>553</b>	<b>566</b>	<b>578</b>	<b>590</b>
Required reduction, dollars	38	37	37	36	35	34	33	32
Required reduction, percent	7.5%	7.2%	6.9%	6.7%	6.4%	6.1%	5.7%	5.4%
Resulting level of caps	472	483	493	505	518	532	545	558
2% Medicare sequestration, dollars	11.4	12.2	12.9	13.4	14.2	15.4	16.5	17.8
Non-exempt mandatory cuts other than Medicare, dollars	5.2	5.2	5.2	5.1	5.1	5.0	5.4	4.8
Non-exempt mandatory cuts other than Medicare, percent	7.5%	7.2%	6.9%	6.7%	6.4%	6.1%	5.7%	5.4%

Source: Center on Budget and Policy Priorities,

## **Critical Areas of Vulnerability**

### ***Research and Development***

Federal investment in R&D falls under discretionary spending. Defense research will be subject to the 9.5 percent reduction. Non-defense research accounts, such as NIH, NSF, USDA, the Department of Energy, and the Department of Education would all be cut by an estimated 8.4 percent under sequestration. In a House Budget Committee hearing on April 25, a representative from OMB estimated that, under sequestration, the NSF would be forced to fund 1,650 fewer competitive basic research grants which would have supported nearly 20,000 researchers, teachers, and students, and the NIH would fund 700 fewer awards.

### ***Student Aid***

Student aid programs are also at risk under sequestration. While Pell grants are protected under sequestration, the caps to discretionary spending will affect other student aid programs, including Work-Study and the Supplemental Educational Opportunity Grant. These will likely be subject to the across-the-board cuts estimated at 8.4 percent. Additionally there is some concern that the discretionary contributions to Pell may be affected.

Nationwide, 51,577 fewer college students will receive Federal Work Study funding and 110,543 fewer college students will receive the SEOG funds, according to a report by Sen. Tom Harkin, Chairman of the Senate Appropriations Subcommittee on Labor, Health and Human Services, and Education and Related Agencies. Under the report, 1,166 Missouri students will no longer receive federal work study allocations. Also, 1,997 Missouri students will no longer receive the SEOG financial aid. Chairman Harkin's report, "Under Threat" was released on July 25, 2012.

Student loans are subject to special rules during sequestration. Direct Loan origination fees must be increased by the uniform percentage specified in the sequestration order. Fees for subsidized and unsubsidized Stafford loan will increase from 1 to 1.1 percent and for PLUS loans from 4 to 4.4 percent.

### ***Medicare***

Medicare payments to providers and insurance plans are subject to sequestration, but cuts are capped at 2 percent of such payments in any given year.

## **Potential Impact of Sequestration to the University of Missouri System**

While Congress is debating how to fix, delay, or eliminate the sequester, federal agencies are preparing for the reductions. In the President's FY2013 budget request to Congress, the Obama Administration claims to have found sufficient savings to avoid sequestration. However much of the savings require legislative changes that the Republican-controlled House is not likely to pass.

Research agencies are running scenarios to determine the impact of cuts ranging from 5-10 percent. Some may decide not to issue new awards. Others may cut across-the-board, to every grant and program under the agency's jurisdiction. Here are some examples of how the reductions may affect the University of Missouri System in FY2013:

### **8.4% reduction to non-defense discretionary programs (based on FY11 numbers)**

Student Aid	<u>\$749,474</u> reduction from the \$8.9 million received in federal work study, SEOG, GEAR UP, TRIO, and GAAN grants.
Research	<u>\$23.1 million</u> reduction from \$271.8 million in total federal research expenditures (NSF, NIH, DoE, NASA, USDA, ED, HHS)

### **2% reduction to Medicare\***

FY2013 (half-year)	\$1.3M
FY2014	\$2.68M
FY2015	\$2.76M
FY2016	\$2.84M
FY2017	\$2.93M
FY2018	\$3.01M
FY2019	\$3.10M
FY2020	\$3.20M
FY2021	\$3.29M

\*Future growth are projected with a 3% increase in market basket and other increases, not counting increased volumes.

## **UM System Sequestration Worksheet\***

*Numbers reflect FY2011 expenditures*

<b>Sponsor</b>	<b>\$ Amount of Awards Your Institution Expended (enter full dollar amounts)</b>		<b>Estimated % Reduction (Source: CBPP)</b>		<b>Estimated Total \$ Amount of Reduction</b>
National Science Foundation	32,335,390	x	8.40%	=	2,716,172.76
National Institutes of Health	74,956,527	x	8.40%	=	6,296,348.27
Department of Energy	14,243,355	x	8.40%	=	1,196,441.82
Department of Defense	27,611,934	x	9.5% (assumes that military personnel will be exempted from cuts)	=	2,623,133.73
NASA	1,372,698	x	8.40%	=	115,306.63
USDA	46,547,910	x	8.40%	=	3,910,024.44
Dept. of Education – Research	5,989,427	x	8.40%	=	503,111.87
Dept. of Education – Student Aid (SEOG, Work-study, TRIO, GAAN, GEAR UP)	8,922,312	x	8.40%	=	749,474.21
Other Federal**	68,766,854	x	8.40%	=	5,776,415.74
<b><i>TOTAL</i></b>	<b>\$280,746,407</b>				<b>\$23,886,429.46</b>

\*\*"Other Federal" includes: HHS divisions such as HRSA, SAMHSA, CDC, etc.

## **MU Sequestration Worksheet\***

*Numbers reflect FY2011 expenditures*

Sponsor	\$ Amount of Awards Your Institution Expended (enter full dollar amounts)		Estimated % Reduction (Source: CBPP)		Estimated Total \$ Amount of Reduction
National Science Foundation	19,231,761	X	8.40%	=	1,615,467.92
National Institutes of Health	56,364,726	X	8.40%	=	4,734,636.98
Department of Energy	7,986,073	X	8.40%	=	670,830.13
Department of Defense	14,206,270	X	9.5% (assumes that military personnel will be exempted from cuts)	=	1,349,595.65
NASA	438,943	X	8.40%	=	36,871.21
USDA	46,232,435	X	8.40%	=	3,883,524.54
Dept. of Education – Research	4,404,602	X	8.40%	=	369,986.57
Dept. of Education – Student Aid (SEOG, Work-study, TRIO, GAAN, GEAR UP)	3,709,381	X	8.40%	=	311,588.00
Other Federal**	44,008,413	X	8.40%	=	3,696,706.69
<b>TOTAL</b>	<b>\$196,582,604</b>				<b>\$16,669,207.71</b>

\*\*"Other Federal" includes: HHS divisions such as HRSA, SAMHSA, CDC, etc.

\*\*\*Include grants, contracts, sub-awards for Columbia, Extension, UM System, and Hospital business units

## **Missouri S&T Sequestration Worksheet\***

*Numbers reflect FY2011 expenditures*

Sponsor	\$ Amount of Awards Your Institution Expended (enter full dollar amounts)		Estimated % Reduction (Source: CBPP)		Estimated Total \$ Amount of Reduction
National Science Foundation	6,485,574	x	8.40%	=	544,788.22
National Institutes of Health	804,412	x	8.40%	=	67,570.61
Department of Energy	5,590,848	x	8.40%	=	469,631.23
Department of Defense	11,385,052	x	9.5% (assumes that military personnel will be exempted from cuts)	=	1,081,579.94
NASA	722,938	x	8.40%	=	60,726.79
USDA	90,058	x	8.40%	=	7,564.87
Dept. of Education – Research	1,035,339	x	8.40%	=	86,968.48
Dept. of Education – Student Aid (SEOG, Work-study, TRIO, GAAN, GEAR UP)	1,138,582	x	8.40%	=	95,640.89
Other Federal**	5,851,931	x	8.40%	=	491,562.20
<b>TOTAL</b>	<b>\$33,104,734</b>				<b>\$2,906,033.23</b>

\*\*"Other Federal" includes: HHS divisions such as HRSA, SAMHSA, CDC, etc.



## **UMKC Sequestration Worksheet\***

*Numbers reflect FY2011 expenditures*

<b>Sponsor</b>	<b>\$ Amount of Awards Your Institution Expended (enter full dollar amounts)</b>		<b>Estimated % Reduction (Source: CBPP)</b>		<b>Estimated Total \$ Amount of Reduction</b>
National Science Foundation	2,706,025	x	8.40%	=	227,306.10
National Institutes of Health	14,233,185	x	8.40%	=	1,195,587.54
Department of Energy	322,561	x	8.40%	=	27,095.12
Department of Defense	1,774,373	x	9.5% (assumes that military personnel will be exempted from cuts)	=	168,565.44
NASA	147,199	x	8.40%	=	12,364.72
USDA	59,596	x	8.40%	=	5,006.06
Dept. of Education – Research	133,487	x	8.40%	=	11,212.91
Dept. of Education – Student Aid (SEOG, Work-study, TRIO, GAAN, GEAR UP)	1,583,876	x	8.40%	=	133,045.58
Other Federal**	12,289,438	x	8.40%	=	1,032,312.79
<b>TOTAL</b>	<b>\$33,249,740</b>				<b>\$2,812,496.26</b>

\*\*"Other Federal" includes: HHS divisions such as HRSA, SAMHSA, CDC, etc.

## **UMSL Sequestration Worksheet\***

*Numbers reflect FY2011 expenditures*

Sponsor	\$ Amount of Awards Your Institution Expended (enter full dollar amounts)		Estimated % Reduction (Source: CBPP)		Estimated Total \$ Amount of Reduction
National Science Foundation	3,912,030	x	8.40%	=	328,610.52
National Institutes of Health	3,554,204	x	8.40%	=	298,553.14
Department of Energy	343,873	x	8.40%	=	28,885.33
Department of Defense	246,239	x	9.5% (assumes that military personnel will be exempted from cuts)	=	23,392.71
NASA	63,618	x	8.40%	=	5,343.91
USDA	165,821	x	8.40%	=	13,928.96
Dept. of Education – Research	415,999	x	8.40%	=	34,943.92
Dept. of Education – Student Aid (SEOG, Work-study, TRIO, GAAN, GEAR UP)	2,490,473	x	8.40%	=	209,199.73
Other Federal**	6,617,072	x	8.40%	=	555,834.05
<b>TOTAL</b>	<b>\$17,809,329</b>				<b>\$1,498,692.27</b>

\*\*"Other Federal" includes: HHS divisions such as HRSA, SAMHSA, CDC, etc.

## **Alternatives and Avoiding Sequestration**

On July 31, 2012, OMB Acting Director issued a memorandum that described some of the issues raised by the sequester. The memo stated that the President “is confident” that Congress will act to avoid the sequester. However, it also stated that OMB officials will begin to hold discussions with agency leaders and their staffs about how the cuts would apply to their legacy accounts and which agency programs would be exempt. The memo stated that more significant preparations may be needed in the long term, but agencies should continue their normal spending and operations “since more than 5 months remain for Congress to act.”

On July 25, 2012, Congress passed the Sequestration Transparency Act, which requires the Obama administration to lay out precisely the cuts to defense and domestic programs set to go into effect on January 2, 2013. The bill requires the administration to send Congress a report of the impact of the sequester within 30 days of becoming law.

Both parties say they want to avoid the sequester – particularly because of the deep defense cuts. Senate Republicans in the Senate will be holding a series of town hall meetings beginning in August to discuss the defense cuts required by the law. Democrats are urging Republicans to begin negotiations to avoid the cuts.

The continuing resolution that is funding the federal government is set to expire on September 30. House and Senate appropriators have agreed in principle (as of August 1) to a 6-month extension federal funding. Both chambers will vote on the measure in September. How this would affect the sequester has yet to be determined.

On May 10, 2012, the House passed the Sequester Replacement and Reconciliation Act of 2012. This measure delays the sequester for one year and produces \$261.5 billion in savings over 10 years from mandatory programs. The measure changes eliminates the “firewall” between security and non-security spending in FY2013, lowers the discretionary spending limit by \$19.1 billion, and eliminates the sequester for defense mandatory spending. Should it become law, this measure will lead to greater share of the spending cuts levied to domestic discretionary accounts, including research and student aid. The Senate has not and Senate leaders have said they will not take up this reconciliation request.